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CANADIAN - U.S. RELATIONS

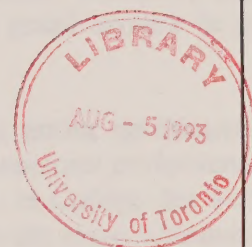
AND THE QUANDARY

OF INTERDEPENDENCE

BY

DAVID LEYTON - BROWN

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Strathrobyn Papers

Editorial

As the world changes so changes the nature of the threat to our national security. It will become increasingly important that views and opinions, as well as official declarations of national policy, be discussed as widely as possible.

In this context and as a facet of the Canadian Forces Professional Development System, the Canadian Forces College will publish occasional papers under the title *Strathrobyn Papers*. Strathrobyn is the former home of the first owner of the site upon which the Staff College stands and today serves as the Officers' Mess and centre of social activity for the College.

Strathrobyn Papers will be published quarterly and will contain papers written by staff and students of the Command and Staff Course as well as the text of key lectures given at the College.

It is hoped that this modest contribution to discussions will encourage free exchange of opinion and the development of debate not solely in our armed forces but also in the public arena -- for therein lies the true essence of democracy.

Editorial

À mesure qu'évolue le monde, la nature des menaces contre notre sécurité nationale se modifie aussi. Il devient de plus en plus important que les points de vue et les opinions, ainsi que les déclarations officielles de politique nationale, soient discutés par le plus grand nombre de gens possible.

Dans ce contexte et en tant qu'élément du Système de perfectionnement professionnel de Forces canadiennes, le Collège des Forces canadiennes publiera des essais occasionnels sous l'intitulé *Strathrobyn Papers* - Strathrobyn étant la résidence du premier propriétaire du site où se situe le Collège d'état-major et qui fait fonction maintenant de Mess des officiers et de centre d'activités sociales du Collège.

Strathrobyn Papers seront publiés tous les trois mois et contiendra des essais rédigés par des stagiaires et des membres du personnel du Cours de commandement et d'état-major, ainsi que des textes de conférences clés données au Collège.

Nous espérons que cette contribution modeste encouragera l'échange libre d'opinions tant au sein des forces armées que dans l'arène publique -- car là réside l'essence même de la démocratie.

Le Commandant
Brigadier-général J.A.R. Desloges

Brigadier-General J.A.R. Desloges
Commandant

ABSTRACT

The impact on Canada's foreign and defence policy relationship with the United States of the international environment, differing political philosophies and political systems, and dissimilar policies on issues of mutual concern is discussed. Suggested approaches to managing Canada's foreign policy relationship with the United States are examined, and issues of current concern to Canada are outlined.

THE AUTHOR

Dr. David Leyton-Brown is Dean of Graduate Studies and Professor of Political Science at York University, North York, Ontario, Canada. He is the author of *Weathering the Storm: Canadian-U.S. Relations, 1980-1983*, published by the Canadian-American Committee in 1985 and of several publications in the areas of Canada-U.S. relations, Canadian and U.S. foreign policies and the politics of international trade and investment.

Dr. Leyton-Brown has lectured frequently at the Canadian Forces Command and Staff College and is a member of the exchange team which visits the United States Air Command and Staff College on an annual basis.

The Editorial Board and the staff of the Canadian Forces College recognize the support of York University to this institution and thank Dr. Leyton-Brown for agreeing to provide the first essay for publication in *Strathrobyn Papers*.

RÉSUMÉ

Y sont discutés, l'impact que l'environnement international, les philosophies et systèmes politiques différents, et les politiques dissemblables sur des questions d'intérêt mutuel ont sur les relations se rapportant aux politiques étrangère et de défense entre le Canada et les États-Unis. Des suggestions à propos d'approches à prendre pour gérer les relations de politique étrangère du Canada et des États-Unis sont examinées, et les questions qui intéressent le Canada en ce moment sont soulignées.

L'AUTEUR

D^r Leyton-Brown est doyen des Études de deuxième et troisième cycles et professeur en sciences politiques à l'Université York, North York (Ontario), Canada. Il est l'auteur du livre intitulé *Weathering the Storm: Canadian-U.S. Relations, 1980-1983*, publié par le Canadian-American Committee en 1985, et de plusieurs publications dans les domaines des relations canado-américaines, des politiques étrangères du Canada et des États-Unis et des politiques du commerce international et des investissements.

D^r Leyton-Brown a été souvent conférencier au Collège de commandement et d'état-major des Forces canadiennes et il est membre du groupe d'échange qui visite le United States Air Command and Staff College chaque année.

Le Comité de rédaction et le personnel du Collège des Forces canadiennes reconnaissent le soutien que l'Université York leur accorde et remercient le D^r Leyton-Brown d'avoir accepté de rédiger le premier essai à être publié dans les *Strathrobyn Papers*.


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York University



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Canada-U.S. Relations and the Quandary of Interdependence

David Leyton-Brown, York University

Canada's relationship with the United States is unquestionably the most important issue on its foreign policy agenda, and among the most important on its overall political agenda. The shadow of that relationship was one of the determining conditions that led to Canadian confederation 125 years ago, and ever since Canadians have been pulled and pushed between closer attraction to the United States and a desire to assert greater distinctiveness and independence. Throughout that time, the United States has been Canada's closest friend, in a functional as well as geographical sense.

A fuller understanding of the politics of this preeminent relationship requires an appreciation of the major underlying factors which establish the characteristics of the relationship, the origins of inevitable problems on the bilateral agenda which necessitate ongoing management of the quandary of interdependence, the broad alternative approaches possible for Canadian policy in the relationship, and the consistent categories of issues to be managed.

CHARACTERISTICS OF THE RELATIONSHIP

There are four principal underlying factors that determine the distinctive characteristics of the Canada-U.S. relationship: asymmetry, similarity, interdependence, and alliance.

Asymmetry - The predominant feature of the Canada-U.S. relationship is the asymmetry between the two countries. Geographically the two countries are of comparable size (with Canada actually slightly bigger), but by virtually every other measure the United States is much the larger, and typically by a ratio of approximately 10:1. The U.S. population is approximately ten times Canada's 25 million, and despite Canada's vastness, over three-quarters of the Canadian population lives within 100 miles of the U.S. border. (This makes Canada the demographic equivalent of Chile - 3500 miles long and only 200 miles wide.) Though Canada's economy is one of the ten largest in the world, and Canada is a member of the group of seven industrialized economies whose leaders meet annually in the economic summit, the U.S. gross national product of roughly four trillion dollars is more than ten times Canada's approximately (US) \$300 billion.

There is also an asymmetry with regard to the respective roles in the international system. The United States is an economic, military and political superpower with worldwide responsibilities and interests, among which Canada has traditionally ranked relatively low. Throughout the postwar period, it has been preoccupied with alliance leadership, East-West relations, and political-strategic considerations, as well as principal determination of the norms of the international economic system. Its relationship with the Soviet Union, the rival superpower, has been the most important element in its

foreign policy. Canada, though of considerable influence in world affairs, is not involved at the same level of responsibility and influence as the United States. The most important element is Canada's foreign policy has indeed been a superpower, but that superpower has not been the Soviet Union. Canada's highest foreign policy priority has been, and continues to be, the management of its relationship with the United States. Because of the asymmetry in the importance attached to the bilateral relationship, Canada inevitably pays more attention to the relationship, and allocates more resources to it, than does the United States.

Similarity - There are enormous similarities between Canada and the United States, perhaps more than between any other pair of countries in the world, but the two countries are not identical. Politically, both emerged, though in different ways, from the British colonial tradition. As a result of this common historical heritage, they share similar political values and structures. Both countries are federations and representative democracies with similar legal systems. Nevertheless, concentration on the similarities can mask the existence and importance of differences in the political structures and processes¹.

Social and cultural similarities are also pronounced. Apart from the francophone population of Canada, the majority of Canadians speak, and read, the same language as Americans. Citizens of both countries tend to watch the same movies and television programs, read the same books and magazines, and cheer for teams in the same professional sports leagues. Of course with the recent triumph of the Toronto Blue Jays, only Canadians can take pride in a World Series champion (though Americans do host hockey's current Stanley Cup champion).

As mentioned above, the close similarity between Canada and the United States does not imply that the two countries are identical. Indeed many Canadians who take pleasure in the close relationship with the United States also take pride in Canada's distinctiveness, and fear continental homogenization of cultural and societal values. Because of Canada's small population and geographical proximity to the United States, as well as the availability and attractiveness of U.S. culture and entertainment, as well as information, via modern communications technology, Canadian governments have been concerned to maintain and develop a distinctive Canadian cultural identity in the face of the danger of cultural homogenization.

Interdependence - The relationship between Canada and the United States continues to be marked by high and complex interdependence². The two countries share the world's largest two-way trade flow, amounting to more than (Cdn) \$200 billion. Each is the other's largest trading partner, with Canada selling almost 80% of its exports to, and buying 70% of its imports from, the United States, while the United States sends 22% of its exports to, and receives 19% of its imports from Canada. This again illustrates a dimension of asymmetry in the relationship as regards trade concentration, for Canada depends upon the U.S. market for approximately 80% of its foreign trade, while approximately 80% of U.S. trade is with countries other than Canada. Canada and the United States are also each other's foremost destination of foreign investment, and while there is over twice as much U.S. direct investment in Canada as Canadian investment in the United States, Canadians have invested more per capita in the United

States than have Americans in Canada. These extensive economic interactions are complemented by a panoply of cultural flows, tourism and immigration, joint environmental issues, and the like.

This heavy volume of interactions does not in itself constitute interdependence, but simply enables it to exist. While the term interdependence is given different definitions or connotations by different analysts, its essence is a policy relationship with two features: (1) (Domestic) policy actions by one government inevitably have effects in the other country, whether intended or not; and (2) One government or other on many issues is unable to achieve its (domestic) policy objectives unilaterally without the cooperation of the other. Because of the asymmetry in the relationship, the U.S. impact on Canada is normally greater than the reverse, as is the constraint upon Canadian rather than U.S. policy action, but the phenomenon of interdependence truly flows in both directions. The reality of Canada-U.S. relations is that both governments affect, and are affected by, the other, and are dependent upon the other's actions for the attainment of some policy objectives.

Alliance - Canada is not a neutral country, but aligns its values and interests with the other countries of the Western Alliance³. Canada is the closest ally of the United States, in functional as well as geographical terms. Since the end of World War II, Canada's military cooperation has shifted focus from the traditional British connection to an institutionalized relationship with the United States. As partners in the multilateral North Atlantic Treaty Organization (NATO), and in bilateral arrangements such as the Permanent Joint Board on Defence (PJBD) and North American Aerospace Defence Command (NORAD), Canada and the United States jointly pursue continental defence, and participate in the wider alliance.

Canada's defence policy is an alliance policy. Canada lacks the population and resources to defend its vast territory against all potential threats, or to secure international peace, alone.

There is little immediate military threat against Canada. The only country which realistically could mount an effective invasion of Canadian territory is the United States itself, and the United States of course poses no such threat. Canada's defence policy of alliance membership has been aimed primarily at preventing the outbreak of a nuclear confrontation between the superpowers, or a global conflict in which the prospect of direct attack on Canada could become a reality. In that light, Canada's alliance membership has been both a military priority, to ensure Canadian security, and a political convenience, to gain access to alliance councils where Canadian military, arms control, economic and political objectives can be furthered.

Membership in the multilateral alliance also conforms to a common Canadian policy of preferring to interact with the United States in a multilateral forum, buffered by other partners of comparable size, rather than dealing with the United States exclusively one-on-one, where the asymmetry of size and power could be disadvantageous.

There is however an interesting irony in Canada's alliance relationship with the United States. On the one hand, the United States is Canada's most important ally, on whom the security of NATO, North America, and Canada itself depends. On the other

hand, the greatest threat to Canada's survival as a distinct and independent entity may also come from the United States. This threat is most certainly not a military one. Canadians and Americans alike are justifiably proud of the world's longest undefended border. Some Canadians, however, consider that if there are broader, non-military threats to Canada's security in the areas of economic autonomy, cultural identity or the environment, those threats are most likely to emanate from the United States, because of the level of U.S. investment in Canada and the concentration of Canadian trade with the United States, or the seemingly irresistible tide of American culture. However, if cultural and environmental threats to Canada might come from the United States, so too the solutions to these challenges lie jointly with the United States.

INEVITABILITY OF PROBLEMS ON THE AGENDA

Management of the relationship with the United States is Canada's highest foreign policy priority. Management is necessary because of the recurrent and inevitable emergence of problems to be managed. These problems in turn arise because of developments in the international environment, different political philosophies and cultures in the two countries, differences in the two political systems, and the adoption of dissimilar policies on similar issues.

The International Environment - Developments in the international environment thrust problems on the Canada-U.S. agenda because of the different and changing international roles played by the two countries, and hence the different interests and perspectives they address. The United States is a military, economic and political superpower, whose interests are affected by developments in any part of the world. Canada, whether described as a middle power⁴, a middle-aged power⁵, a foremost nation⁶, a regional power without a region⁷, or a principal power⁸, is not a superpower, though in many ways its role is considerable and its power is growing.

Also, many bilateral problems between Canada and the United States stem from different national responses to common problems in the changing international environment⁹. Structural changes in the international division of labour and intervention by other governments to alter trading patterns through protectionism or export subsidization compel the Canadian and U.S. governments to act on behalf of their domestic industries. While some Canada-U.S. disputes arise from actions by one of the two governments aimed at the other, more result from a "sideswipe" phenomenon, in which typically Canada finds itself negatively affected by U.S. actions aimed at other trading partners such as Japan or the European Community.

Political Philosophies - Despite all the cultural similarities and common history, Canada and the United States are constructed on some different philosophical assumptions, and have in some ways developed along different lines. The U.S. constitution is based on a fundamental assumption that any unchecked concentration of power is likely to be abused, while Canada's parliamentary system presupposes that the exercise of power by the Crown will be benign. There is a revealing contrast between the U.S. political ideal of "life, liberty and the pursuit of happiness", and the Canadian constitutional goal of "peace, order and good government". More importantly, the two

societies have different conceptions of the appropriate response to societal minorities, the appropriate balance between individual and group rights, and the appropriate role of government in the economy. In the United States government intervention has traditionally been accepted only for the purpose of creating the opportunity for wider private participation in the free market. Because of Canada's enormous transportation distances and scattered population, the Canadian government has been expected to meet social and economic objectives not realizable by the free market system. These different philosophical positions can be responsible for incompatibility of motives of the two governments, and for exacerbation of tensions, as occurred over Canada's National Energy Program in the early 1980s¹⁰.

Political Systems - Differences in the political systems of the two countries can complicate the handling of bilateral issues. The two domestic political systems respond to different pressures, and work through different processes. A parliamentary government with standards of cabinet solidarity and secrecy functions very differently than a system with separation of powers and checks and balances between branches.

Each government finds its freedom of manoeuvre in bilateral relations constrained by another domestic political actor - Congress in the United States and provincial governments in Canada. Canada finds the increasing role of Congress on many issues of Canada-U.S. relations to be a particular difficulty. This can arise when the U.S. constitution assigns a specific role to Congress, such as in the treaty ratification process. Canada, like other foreign countries, can be faced with the need for what amounts to a second round of negotiations with Congress over possible amendments to a proposed agreement, after a deal has already been struck with administration negotiators (as happened with the Fisheries and Maritime Boundaries Treaties of 1979). It can also arise when matters on the domestic political agenda, such as clean air legislation, affect issues in Canada-U.S. relations, such as acid rain.

Regularly scheduled elections in the United States, in contrast to Canada's irregular elections called at the pleasure of the government (within a constitutionally specified maximum time), impose deadlines and domestic pressures on bilateral interactions. U.S. legislators who are always running for re-election give a different character to the Congress, which as mentioned above, plays a more prominent and independent role on bilateral issues than does the Canadian parliament.

Dissimilar Policies on Similar Issues - The combination of different political philosophies and different political systems, along with particular interests and immediate objectives, inevitably means that some of the two federal, ten provincial and fifty state governments will adopt dissimilar policy responses to similar problems. Even when the governments involved are pursuing compatible or identical objectives, lack of synchronization of policy changes is an inevitable source of friction.

This inevitable friction is complicated by occasional failures to communicate effectively what intentions lie behind policy actions, or to understand fully the explanations of those intentions, even if they are communicated. We don't always understand the messages we receive, especially if they are not the messages we expect.

As a result of these underlying factors, there will always and inevitably be problems on the bilateral agenda which require management. However, as former U.S.

President Gerald Ford once observed, Canada and the United States are able to disagree without being disagreeable. The search for the best ways to do exactly that, and to manage the bilateral relationship so as to maximize the benefits and minimize the costs, has been an ongoing preoccupation for Canadian governments.

APPROACHES TO MANAGEMENT OF THE RELATIONSHIP

Canada has always been ambivalent about its relations with the United States. From the very beginning, Canadians have recognized the existence of the economic interdependence with the United States, and have sought the economic benefits of closer relations with the United States. Economic transactions would flow more naturally north-south than east-west across great distances and geographical barriers. Secure access to the U.S. market, ten times as large as that of Canada, would promise benefits of economies of scale and specialization. On the other hand, Canadians have worried about the loss of Canadian distinctiveness, autonomy and even independence that might result, and so have been reluctant to move too close. The Canadian ambivalence between desire for the benefits (primarily economic) of closer relations with the United States, and fear of the costs (primarily political and social) of that same closeness, might be termed the quandary of interdependence. This quandary confronts Canadians with various possible approaches to the management of the bilateral relationship.

Canada's relationship with the United States was systematically reviewed in the early 1970s in the context of the overall foreign policy review conducted by the newly elected Trudeau government. The statement on policy toward the United States did not appear as a part of the foreign policy white paper, Foreign Policy For Canadians. Rather it appeared as a special issue of the government-sponsored magazine International Perspectives¹¹, in the aftermath of the Nixon shocks of August 1971, which imposed a tariff surcharge on imports from Canada and other countries without prior consultation or Canadian exemption. This policy review identified three options which Canada might pursue in its relations with the United States, and which came to be known imaginatively as the first option, the second option, and the third option. Each option offered a different response to the Canadian ambivalence about the quandary of interdependence.

The first option involved "maintaining more or less the present pattern of our economic and political relationship with the United States with a minimum of policy change"¹². This meant the maintenance of the general thrust of industrial and multilateral trade policies, and the ad hoc management of Canada-U.S. issues within the context of a special relationship. This first option was officially rejected because though it did not foreclose other options, it was essentially reactive. Furthermore, because it ignored the underlying continental pull, it was feared that it could result in Canada being drawn more closely into the U.S. orbit.

The second option was to move deliberately toward closer integration with the United States, over a range of possible closer economic ties, including sectoral arrangements, free trade or a customs union¹³. This option would be aimed explicitly at the attainment of economic benefits from closer relations. However, the second option too was rejected. It was felt that such a move would be irreversible for Canada, but not

for the United States. More importantly, it was felt that this option would involve an unacceptable cost to Canadian identity, because there would be inevitable pressures to move to political union in order to protect Canadian interests.

The third option was to pursue a "comprehensive long-term strategy to develop and strengthen the Canadian economy and other aspects of its national life, and in the process to reduce the present Canadian vulnerability to external factors, including, in particular, the impact of the United States"¹⁴. This option certainly included a dimension of trade diversification, but went far beyond that. It involved a complex of domestic and foreign policies to develop a balanced and efficient economy and a more confident sense of national identity. As such, it encompassed trade policy, industrial policy, investment policy, energy policy, cultural policy and the like. This third option was the one adopted, at least nominally, by the Canadian government of the day. Attempts to implement it resulted in considerable tension between Canada and the United States in the early 1980s¹⁵.

Many prominent policy initiatives of the 1970s and early 1980s can be seen as consistent with the third option. The Foreign Investment Review Agency to screen incoming foreign investment to ensure significant economic benefit to Canada, the National Energy Program to capture the revenues resulting from rising oil prices and Canadianize the oil and gas industry, and cultural policy initiatives to ensure the existence of financially viable broadcasters and publishers to disseminate Canadian cultural products, all were measures to strengthen the Canadian economy and identity, and to reduce Canadian vulnerability to external factors. However, the third option was never wholeheartedly and consistently pursued by the entire cabinet. The hoped-for comprehensive strategy was never designed or adopted; instead a disconnected series of individual policies was put in place. In practice, the Canadian government continued to follow the first option of ad hoc management and business as usual, while giving lip service and only occasional substance to the third option. And all the time, the business community continued to increase the proportion of Canada's economic dealings with the United States, swamping any efforts at trade diversification in a tide of continental trade concentration.

The Mulroney government's decision to enter into negotiations for a comprehensive free trade agreement with the United States was essentially a return to the second option rejected by a previous Canadian government. Prime Minister Mulroney gambled his own political future, and that of Canada and its relationship with the United States, on the conviction that closer personal, official and economic relations with the United States will yield economic and other benefits for Canada, without threat to Canada's identity or interests¹⁶.

The reason that his calculation regarding the costs and benefits of closer economic relations with the United States was different than in 1972 can be found in a different assessment of the strength of Canada's identity. A consistent theme in the speeches of Prime Minister Mulroney and his cabinet ministers during their first term of office was confidence in Canada - a belief that Canada had matured economically, politically and socially to such an extent that its identity and independence would not be jeopardized by closer relations with the United States. By this calculation, the quandary of

interdependence could be resolved by pursuing the benefits without fear of the costs, since a more prosperous Canada would be more independent and influential than a poorer one.

The free trade negotiations led to the Canada-U.S. Free Trade Agreement (FTA), which came into force in 1989. Before that, the FTA became the dominant issue in the federal election campaign, where the opinions of Canadians generally corresponded to different positions on the quandary of interdependence.

Supporters of the FTA applauded its anticipated economic benefits, emphasizing its success in insulating Canada from U.S. protectionism and giving Canada a voice in future negotiations concerning subsidies and trade remedies, its opportunity for rationalization and increased international competitiveness of Canadian industry, and its secure and enhanced access to the U.S. market for exports, and the U.S. economy for investment. Enhanced access to the U.S. market resulted from the FTA's tariff reductions and liberalization of government procurement, while more secure access involved the dispute settlement mechanisms.

Opponents made three different arguments. Some argued that while free trade was desirable, the FTA itself was a bad deal, in which Canada had given up too much and received too little in return. Others were simply opposed to this or any other free trade agreement, preferring instead some combination of managed trade and industrial policy. A third group saw the FTA as a threat to Canadian autonomy and independence. They characterized it as giving the United States a voice or a veto over future Canadian policy, thus endangering Canadian social and regional development programs, as imposing pressures for increased harmonization of policies, thus making Canada more and more like the United States, and as leading to the erosion of Canada's cultural identity.

Despite the fierce claims of supporters and critics of the FTA, it is still too early to tell whether its economic, let alone social and political, effects have been essentially positive or negative. Long term effects will only be clear in the long term, and short term effects have been clouded by the severe recession which beset the Canadian and U.S. economies shortly after the FTA came into force. Only time will tell whether the FTA helped to cushion the impact of the recession and accelerate recovery, or alternatively deepened the impact and delayed recovery. Only time will tell whether the Mulroney gamble about the solution to the Canadian quandary of interdependence in the Canada-U.S. relationship was successful.

THE CURRENT AGENDA

There is a remarkable consistency in the agenda of bilateral issues which have arisen between Canada and the United States over the decades. While the specific issues of course are always changing, with new problems emerging as old ones are resolved, those issues fall in constant categories. It is instructive to compare the "Questions of past and future friction" enumerated in the famous memorandum on relations between Canada and the United States written from the Canadian legation in Washington by Hume Wrong in 1927¹⁷, with the agendas of issues dealt at current summit meetings. With very few

timebound exceptions (such as liquor smuggling from Canada during Prohibition in the United States), the categories are still the ones in which frictions must be managed sixty years later. Wrong's questions included: tariff policies, conservation of Canadian natural resources, boundaries (with particular reference to the Arctic and to territorial waters), international waterways (including the export of power), smuggling, continental air routes, law enforcement, immigration, defence issues, and radio-broadcasting. Today's major issues of trade and investment, energy relations, Arctic sovereignty, fisheries, "open skies" airline deregulation, defence cooperation, environmental protection and cultural sovereignty can all be related to that list.

The largest set of issues on today's agenda is economic. Chief among these is the implementation of the FTA, and especially various specific trade disputes. These range from the relatively technical, such as disputes over the size of knotholes permissible on construction-grade plywood, to the blatantly political, such as disputes over different U.S. and Canadian government administrative policies in the softwood lumber industry. Other major trade disputes on the current agenda include whether Canadian steel sold in the United States at market prices is considered to be dumped under U.S. trade law, whether an Ontario environmental tax on beer cans ostensibly designed to encourage the use of refillable bottles in fact is a trade barrier against U.S. beer in cans, whether the rates charged by Quebec Hydro for electricity used by magnesium smelters constitute an unfair subsidy, and whether certain automobiles assembled in Canada contain sufficient North American content to qualify under the rules of origin of the FTA for duty free entry to the United States.

Apart from trade disputes under the FTA, the major economic issues have to do with the negotiation, ratification and ultimately implementation of the North American Free Trade Agreement (NAFTA), including Canada, the United States and Mexico. Canada entered into the NAFTA negotiations with the primary objective of preventing the erosion of the benefits achieved, and paid for, in the FTA. It also sought to achieve further benefits in terms of increased access to the U.S. market or improvements to the FTA, while resisting U.S. attempts to reopen "unfinished business" with Canada that it was unable to achieve in the FTA, or to push Canada for further concessions as the price for participation in NAFTA. Finally, it sought increased access for Canadian goods, services and investment to Mexico, which with the prospect of economic growth could in the long term be transformed into a major market.

In terms of these objectives, Canada made some gains, and avoided some losses, but most importantly, it was part of the process. Canada realized some modest improvements to the FTA with regard to access to the U.S. market (e.g. government procurement), and clarification of rules of origin (e.g. regarding definition of North American content). Efforts to worsen the FTA bargain in several areas were successfully resisted: the screening of new foreign acquisitions was maintained, at the same thresholds; the exemption for cultural industries under the FTA was preserved; Canada's agricultural supply management systems in the dairy, egg and poultry sectors were exempted. Substantial barrier-free access to Mexico was achieved for Canadian goods and services, and for Canadian investment in financial and other sectors. In some contentious areas, however, Canadian negotiators yielded to U.S. pressure, or at best

simply moderated that pressure. The level of North American content required for automotive goods to qualify for duty-free entry to the United States has been raised, against Canada's wishes, from the 50% level provided in the FTA, to 62.5%. This will advantage the big three North American automobile producers, and disadvantage the Japanese and Korean owned automobile assembly operations in Canada, though it is argued that the newly clarified rules of origin will make the 62.5% content threshold easier to reach, and less subject to harassment. NAFTA provides duty free access only to clothing and textiles containing exclusively North American made fibres and yarns, which denies Canadian apparel companies the opportunity to use (cheaper) imported fabrics. To offset this, Canada achieved an increase in the allowable quota for products not meeting this requirement, at least for the first five years. The dispute settlement provisions of the FTA remain, and are in some ways strengthened, but the commitment to negotiate a new system of rules on subsidies and countervailing duties within five to seven years has been replaced by a sense that the NAFTA system will be permanent.

There is a fascinating contrast between Canadian perspectives on the FTA and NAFTA. In the case of the FTA, anticipated benefits were expected to be immediate as well as long term. Early tariff reductions and expanded access to government procurement were to result in export expansion. Increased security of access, in terms of insulation from U.S. protectionism, would lead to an early improvement in the climate of investor confidence and trade predictability. All in all, Prime Minister Mulroney's promise of "jobs, jobs, jobs" was a promise of short term gain, while longer term benefits would result from industrial restructuring and enhanced competitiveness. On the other hand, while some costs anticipated by opponents of the deal were immediate and localized, for the most part they were long term. Critics expressed alarm about the possible long term threat to Canada's autonomy and independence that might result from precluding certain policies on the part of future Canadian governments, increased harmonization of policies with the United States, and diminished cultural identity.

The situation is reversed in the case of NAFTA. Anticipated benefits are long term, while expected costs are immediate. Apart from the prospect of cheaper imports from Mexico, which might themselves threaten Canadian producers, the economic benefits for Canada from NAFTA would involve the growth of investment in and export to Mexico, which would in turn depend upon future economic growth in Mexico. On the other hand, there is an immediate prospect of lower cost imports from Mexico which could threaten Canadian industries in sectors like textiles, clothing and footwear. There is an immediate prospect of the loss of share in the U.S. market to Mexico in sectors where the two countries already compete, like automobiles and auto parts, some petroleum products, data processing machines, and zinc, with the potential for future competition in other sectors. There is an immediate prospect of the export of Canadian jobs and investment, as companies may be attracted by low Mexican wages to relocate there to serve the entire North American market.

Defence issues also range from the technical (such as who will bear the cost of cleanup at NORAD sites) to the complex and global. In the latter category are questions concerning peacekeeping and collective action under the United Nations, or the future of NATO. In between are invariable bilateral defence issues such as burden sharing, the

future of defence economic cooperation and the North American defence industrial base, or the involvement of Canada in space-based surveillance and detection for North American aerospace defence.

In the environmental category, perennial issues include acid rain and Great Lakes water quality. Other issues include the cross-border environmental effects of major construction projects on one side of the border or the other, and problems concerning the disposal of hazardous, toxic and medical wastes.

Each of the other general categories of issues has its current content. The principal energy issue at the present time concerns the apportionment of costs of construction of pipeline facilities for sales of Canadian natural gas in the California market. Cultural issues currently include access to the United States by Canadian performers, the ownership of Canadian cultural industries, and the return of an old favourite - Canadian tax restrictions on advertising in "split run" Canadian editions of U.S. magazines containing limited Canadian content. Fisheries issues currently include the allowable minimum size of lobsters and the enforcement of jurisdiction and quotas in Canadian fishing zones.

What is remarkable is not the specific issues on the agenda at any given time, nor the number of those issues. Rather the important aspect is the consistency of the types of issues, and the effective way in which they are typically managed.

CONCLUDING OBSERVATIONS

The closeness and complexity of the Canada-U.S. relationship does not mean that there are no problems that arise. On the contrary, as was argued above, it is inevitable that frictions will require the attention of both governments. Nevertheless, the vast majority of the frictions are resolved without ever coming to public attention. Even when tensions become more pronounced over those issues that do become more politicized, the relationship never sinks to the level of acrimony and conflict which is quite common in many other parts of the world. A measure of the civility and mutual benefit of the Canada-U.S. relationship is that while disputes can and do arise, they are always managed and resolved in peaceful ways. The use of force to resolve a dispute between Canada and the United States is truly, and fortunately, unthinkable.

A Canadian senator, Robert Thompson, once stated that the United States is Canada's best friend - whether we like it or not. Despite the occasional irritants, and the perpetual quandary of interdependence, most Canadians do like it.

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